

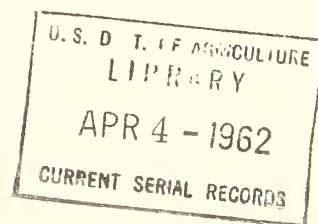
Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

A281.9
Ag83E
Cop. 2

PRICES, COSTS, and MARGINS for Major Dairy Products

Reprinted From
The Dairy Situation
December 1961



Growth Through Agricultural Progress

U. S. DEPARTMENT OF AGRICULTURE
Economic Research Service

PRICES, COSTS AND MARGINS FOR MAJOR DAIRY PRODUCTS 1/

About 95 percent of consumers' expenditures for dairy products in 1961 were for fluid milk, butter, cheese, and ice cream, and over 90 percent of all milk sold off farms was consumed in these forms. Total consumers' expenditures for dairy products in 1961 are estimated at about \$10.4 billion, with farmers receiving about \$4.8 billion of the amount. Prices, costs, and margins for these commodities are of prime importance to the dairy industry and to consumers.

Fluid Milk

Of these products, only for fluid milk did the situation remain stable in 1961. The retail price and the marketing margin were, for practical purposes, unchanged from 1960. (See table 10.) The annual average retail prices paid, based primarily on single quarts, were 25.4 cents in 1961 and 25.3 cents in 1960. The marketing margin also rose by 0.1 cent to 14.5 cents. The farm value was unchanged at 10.9 cents. For the third consecutive year, the farmers' share of the consumer purchase price was 43 percent (table 10.) Retail prices used in these comparisons were collected by the Bureau of Labor Statistics. They represent homogenized milk, the most widely used type of milk.

Data available from other sources indicate that the weighted average price paid by consumers for homogenized milk in all types and sizes of containers has changed very little over a period of 10 years. The average price in 1961 will be about the same as in 1952 -- about 24 cents per quart. This is a little more than 1 cent more than the low point of the period in 1954.

During the 1958-61 period, the average retail price per quart has increased fairly steadily at an annual rate of about 0.2 cents per quart (see table 10), but the weighted average retail price has changed little. Individual prices have increased for different fluid items in various kinds and sizes of containers at most outlets. Single unit price increases have been offset by substantial shifts from higher priced to lower priced products. Changes have been made from single quart to multiple quart containers, from premium milk to standard, from home delivery to store purchases, and to more quantity discounts.

Since 1957 the payment to farmers for milk used for fluid purposes has varied less than the equivalent of $\frac{1}{2}$ cent per quart. With retail prices increasing slightly and farm value holding steady, gross marketing margin has increased little since 1957. Rising labor costs contributed about 90 percent of the increase in gross margins.

1/ Special article by Donovan D. MacPherson, Marketing Economics Division, ERS.

Table 10.--Fluid milk: Retail price per quart in urban areas, farm value, marketing margin, and farmer's share of retail price, United States, 1950-61 1/

Year	Retail price	Farm value	Marketing margin	Farmer's share
	Cents	Cents	Cents	Percent
1950	19.8	9.9	9.9	50
1951	22.1	11.2	10.9	51
1952	23.2	11.9	11.3	51
1953	22.8	11.1	11.7	49
1954	22.4	10.4	12.0	46
1955	22.5	10.2	12.3	45
1956	23.3	10.6	12.7	45
1957	24.2	10.9	13.3	45
1958	24.5	10.7	13.8	44
1959	24.7	10.7	14.0	43
1960	25.3	10.9	14.4	43
1961 <u>2/</u>	25.4	10.9	14.5	43

1/ Estimate of retail price is basically a single-quart price computed from data published by the Bureau of Labor Statistics.

2/ Based on preliminary estimates.

Table 11.--Butter: Retail price per pound, farm value, marketing margin, and farmer's share of retail price, United States, 1950-61

Year	Retail price	Farm value	Marketing margin	Farmer's share
	Cents	Cents	Cents	Percent
1950	72.3	52.2	20.1	72
1951	81.4	60.0	21.4	74
1952	85.0	62.6	22.4	74
1953	79.0	56.7	22.3	72
1954	72.4	50.4	22.0	70
1955	70.9	49.2	21.7	69
1956	72.1	51.0	21.1	71
1957	74.3	51.7	22.6	70
1958	74.2	51.1	23.1	69
1959	75.3	52.5	22.8	70
1960	74.9	53.1	21.8	71
1961 <u>1/</u>	76.4	53.6	22.8	70

1/ Based on preliminary estimates.

Data on selling prices, marketing margins, and farm value cover fluid whole milk consumed only at home. This represents about 83 percent of the fluid items, according to a recent study of the wholesale operations of a selected group of plants. The study also showed nearly 8 percent of the sales went to public and private eating places, a little less than 4 percent to schools, and about $5\frac{1}{2}$ percent to institutions such as military messes, hospitals, prisons, rest homes, and orphanages.

Prices paid by consumers and the marketing margins for all fluid items in all outlets probably are slightly higher than indicated by the weighted data presented here. Consumption in eating places and institutions involves more marketing services. Consumption in both eating places and schools usually is from high-cost containers. Products such as cream and cream-milk mixtures also have high unit costs.

Butter

Retail prices, marketing margins, and farm values for butter are all higher in 1961 than in 1960. (See table 11.) Retail prices increased 1.5 cents to 76.4 cents, while the farm value increased only 0.4 cents to 53.0 cents. The marketing margin went up to the 1959 level of 22.8 cents. Farm value was 71 percent of the retail price; it has ranged from 69 percent to 71 percent over the past 8 years. Farm values for butter were influenced by the competition for raw milk arising from the strong market for cheese in 1960 and early 1961. However, butter processors were generally unable to pass along their increased costs for raw milk during 1960; farm value increased but retail prices decreased during this period; consequently, processors' margins fell from 7.2 cents in 1959 to 6.0 cents in 1960.

Cheese

The general situation for cheese looked quite favorable at the end of 1960. Retail prices were up. Wholesale prices had been above support levels for 17 months. Government support purchases were nominal. Prices paid to producers during October-December 1960 were some 50 cents per 100 pounds of milk above support levels.

On January 27, 1961, the wholesale price declined 4 cents a pound on the Wisconsin Cheese Exchange. The drop forecast the situation for the remainder of 1961. Production increased enough to more than offset the increased commercial demand -- in some months of 1961 production was 25 percent higher than a year earlier. Before the end of March the wholesale price was down to the support level.

During the period of the strong market for cheese, retail prices and wholesale prices rose more than farm values. The marketing margin increased, and it did not drop when prices dropped.

This is reflected in the prices, marketing margin, and farm value for American processed cheese. (See table 13.) The average retail price per pound rose from 60.6 cents in 1960 to 64.5 cents in 1961, but the farm value increased only from 29.6 cents to 30.2 cents; the marketing margin increased from 31 cents to 34.3 cents. The farm value, as a percentage of retail price, dropped 2 points to 47, the lowest in the series which began in 1950.

Table 12.--Trends in sales value, raw material costs, operating expenses, and margins per unit of product for a selected group of milk distributors, 1952, 1954, 1956-61

(1952 = 100)								
Item	1952	1954	1956	1957	1958	1959	1960	1961 1/
Net sales receipts	100	94	99	98	98	99	99	101
Cost of raw materials :								
Raw milk and cream ...	100	87	91	88	86	87	87	87
Other	100	100	102	101	98	98	106	118
Total	100	89	92	90	88	89	90	91
Gross margin	100	103	109	111	112	113	113	116
Operating expenses:								
Salaries, wages, and commissions	100	103	113	116	119	121	122	124
Containers	100	108	120	118	117	115	110	112
Operating supplies ...	100	117	93	97	97	97	100	97
Rent, repairs, and depreciation	100	114	128	134	136	134	132	136
Other expenses	100	106	113	111	115	113	114	120
Total	100	106	114	117	118	119	119	122
Net margin before income taxes	100	77	69	71	63	70	73	73

1/ Preliminary estimates.

Ice Cream

Retail prices, marketing margins, and farm values for ice cream have been very stable during the period of 1954-61. (See table 14.) The retail price of half-gallons of vanilla and chocolate ice cream only ranged from 85.4 cents to 87.8 cents. Farm value has been at or near 26 percent of the retail price.

Though per capita ice cream consumption declined since 1959, it still is about 12 percent above that of 1950. This gain probably has been due largely to the increased sale of half-gallons in stores, which makes it more convenient for homemakers to serve ice cream more often with meals. Decreased prices also have favored increased consumption. In 1961 the price of half-gallons was 86.5 cents compared with 88.9 cents in 1951 and 86.9 cents in 1960. During the same period prices of all foods, as measured by the Bureau of Labor Statistics index, increased by 4.0 percent. Since ice cream sales shifted from the higher priced pints and hand-packaged items to the lower priced prepacked half-gallon, the actual weighted price paid by the consumer for all ice cream has decreased even more than indicated by these figures.

Table 13.--American processed cheese: Retail price per pound, farm value, marketing margin, and farmer's share of retail price, United States 1950-61

Year	Retail price	Farm value	Marketing margin	Farmer's share
	Cents	Cents	Cents	Percent
1950	51.1	27.4	23.7	54
1951	58.3	33.7	24.6	58
1952	59.9	35.2	24.7	59
1953	59.6	30.8	28.8	52
1954	57.2	27.7	29.5	48
1955	57.1	27.7	29.4	49
1956	57.2	28.4	28.8	50
1957	57.6	28.8	28.8	50
1958	58.0	28.1	29.9	48
1959	58.2	28.2	30.0	48
1960	60.6	29.6	31.0	49
1961 ^{1/}	64.5	30.2	34.3	47

^{1/} Based on preliminary estimates.

Table 14.--Ice Cream: Retail price per half-gallon, farm value, marketing margin, and farmer's share of retail price, United States, 1950-61

Year	Retail price	Farm value	Marketing margin	Farmer's share
	Cents	Cents	Cents	Percent
1950				
1951	88.9	26.0	62.9	29
1952	89.6	27.0	62.6	30
1953	89.0	24.3	64.7	27
1954	87.6	21.6	66.0	25
1955	85.8	21.3	64.5	25
1956	85.4	22.1	63.3	26
1957	87.0	22.3	64.7	26
1958	87.8	21.9	65.9	25
1959	87.8	22.3	65.5	25
1960	86.9	22.5	64.4	26
1961 ^{1/}	86.5	23.2	63.3	27

^{1/} Based on preliminary estimates.



11

